CIBC PRIVATE WEALTH
WOOD GUNDY

July 2023 Market Update

We enter the second half of 2023 still with several uncertainties – both economic and geo-political – and unanswered questions around interest rates and economic strength.

The half-time report for the equity markets showed continued volatility in share prices. The strength of the US market has been very heavily concentrated in a few mega-capitalized technology companies. To have benefitted from the strength in the US markets, an investor will have needed to own these seven companies, and these companies will have had to equal about one-half of your investment portfolio. The sheer size of these mega-cap companies skews the market indices even further. For the Nasdaq 100 index, these seven companies make up 51% of the index. The other 93 companies (all are well known large companies) now makes up just 49% of the index. An investor who invests in a Nasdaq 100 ETF, is in-fact investing 51 cents of each dollar invested in the seven largest holdings and only 49 cents into the other 93 companies. These same market concentration issues are not as prevalent in the Canadian equity markets, but still, the small positive TSX market performance so far in 2023 is due much to a few companies.

The current market environment seems to be highly speculative. This very narrow market leadership suggests many investors are ignoring several good investment opportunities in well-managed companies in Canada and the US.

The topic of inflation has been a concern for the past 15 months. Inflation is certainly cooling and continues to head downwards (the right direction). The cost of labour inflation, though improving, does remain too high. As of this writing, the Bank of Canada will be meeting again in a couple of days. Best guess, is that they will increase base interest rates up another 0.25%. We are at the point where additional interest rates increases will cause pain for some people (ie. Variable mortgages, high debt levels). As we wrote last month, central banks have basically done their job to battle inflation using interest rates. It is now the job of governments to use their powers of fiscal responsibility to finish the inflation-fighting job. There are no signs of this happening, thus forcing the central bankers to do even more. Also as of this writing, we are in the midst of a western Canada Ports strike. This needs to end soon, or we risk more economic damage. Business losses/closures, a rebound in inflation, and possibly some shippers using US ports as a more permanent basis.

Still, the outlook for investors remains strong. Many economists and forecasters have been overly pessimistic… The economy and the markets continue to climb that wall of worry. For Canadian investors, we have seen many dividend increases so far in 2023. On any given day, the market valuation is a snapshot of that moment as to what someone else is willing to pay you for your investments. This snapshot is not a frozen constant. It moves higher and lower. We are seeing some stability in these snapshots with indications reflecting that steady moves higher are on the horizon. In the meantime, the cash flow (dividend and interest income) are increasing to reward investors for being patient (or impatient).

The first half of 2023 under-performance of the Canadian markets comes much from the weaker confidence in three key sectors (banks, energy infrastructure, REITs). Improving earnings outlooks for these sectors will likely be key to restoring confidence and a second half recovery. The investment markets will soon begin to look past 2023 results, and focus on the re-acceleration of the growth in 2024 and beyond.

Fear and greed are unfortunately two dominant emotions in an individual's life choices. As investors, it is important to push past these emotions. Remain calm and rational, and look to find some investment benefits from other's fear and greed.

A couple of other items:

1) CIBC is currently working on making the First Home Savings Account (FHSA) available to clients seeking to save towards purchasing their first home. The new registered account is eligible to Canadian residents and offers potential homebuyers the ability to contribute $40,000 tax-free towards the purchase of their first home. If you would like to further discuss this new registered account, please reach out to us at any time.

2) We will soon be sending out semi-annual performance reports for your investment portfolios. We will be in touch to review these reports with you.

As always, remain optimistic yet cautious.

Best Regards,
CIBC Wood Gundy

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